

***ANNUAL REPORT
FISCAL YEAR 2010***

OFFICE OF INSPECTOR GENERAL



*State of Michigan
Department of Human Services*

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) is a criminal justice agency in the Department of Human Services (DHS) that was created in 1972. The primary duty of the OIG is to investigate cases of suspected fraud within DHS. OIG is statutorily required under MCL 400.43b to perform the following activities:

- Investigate fraud, waste, and abuse in the programs administered by the DHS.
- Make referrals for prosecution and disposition of appropriate cases as determined by OIG.
- Review administrative policies, practices, and procedures.
- Make recommendations to improve program integrity and accountability.

MISSION STATEMENT

The mission of the OIG is to assist DHS in maintaining integrity and accountability in the administration of its programs. The OIG provides investigation and advisory services to ensure appropriate and efficient use of available public resources.

VALUES OF THE OFFICE OF INSPECTOR GENERAL

- Excellence in the performance of OIG duties
- Highest possible standards of professional conduct
- Innovation from all levels of the organization
- Support for the accuracy and integrity of all DHS programs

OIG will be held accountable by the people of the State of Michigan for maintaining the highest standards of integrity and good moral character.

As members of the OIG, we work together as a team to plan and strive for excellence, realizing the daily decisions that are made will reflect on the future of our organization as a whole.

EXECUTIVE SUMMARY

RECIPIENT FRAUD INVESTIGATIONS & FRAUD DETECTION

SPECIAL INVESTIGATIONS UNIT (SIU)

OFFICE OF MONITORING AND INTERNAL CONTROLS (OMIC)

OIG NATIONAL RANKING (Fiscal Year 2009)

OIG MIDWEST RANKING (Fiscal Year 2009)

In 2010, OIG Agents:

- Completed 4,952 recipient fraud investigations.
- Identified fraud of \$15.8 million.
- Completed 2,009 FEE investigations in FY 2010 and identified \$12 million in cost avoidance.
- Obtained \$554 of program cost savings per FEE investigation hour.
- Identified \$224 of fraud per investigative hour.
- Established fraud receivables of \$159 for every investigative hour completed.

In 2010, the OIG SIU:

- Completed 123 investigations.
- Identified \$2.2 million of fraud.
- Identified \$465 of fraud per investigative hour.

In 2010, OMIC:

- Reviewed time and attendance records of 5,323 child care providers for compliance with program requirements.
- As a result, 3,332 providers were terminated from the program for significant non-compliance.
- The efforts resulted in \$6.33 million in cost savings to taxpayers.

Based on the most recent data issued by the USDA Food and Nutrition Services, for food assistance benefits, Michigan ranks:

- 2nd in Amount of Fraud Detected.
 - 4th in Number of Fraud Claims Established.
 - 2nd in Fraud Claims Recouped.
 - 4th in Total Disqualifications from Prosecution.
 - 4th in Disqualifications from Convictions and Consent Agreements.
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- 1st in Amount of Fraud Detected.
 - 2nd in Fraud Claims Established (in \$).
 - 1st in Fraud Claims Recouped.
 - 1st in Total Disqualifications from Prosecution.
 - 1st in Disqualifications from Convictions and Consent Agreements.

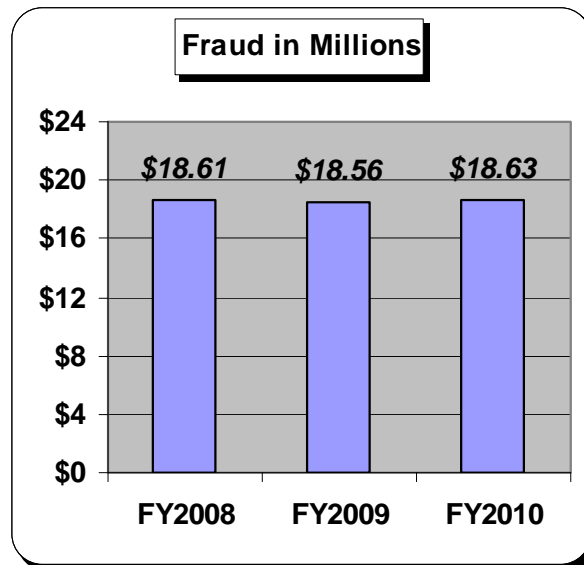
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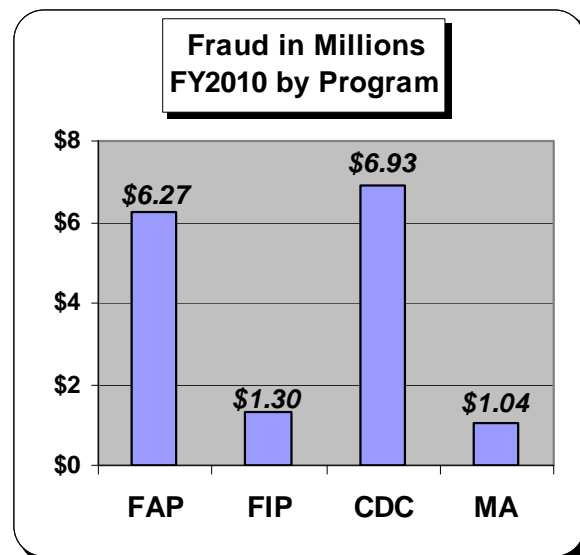
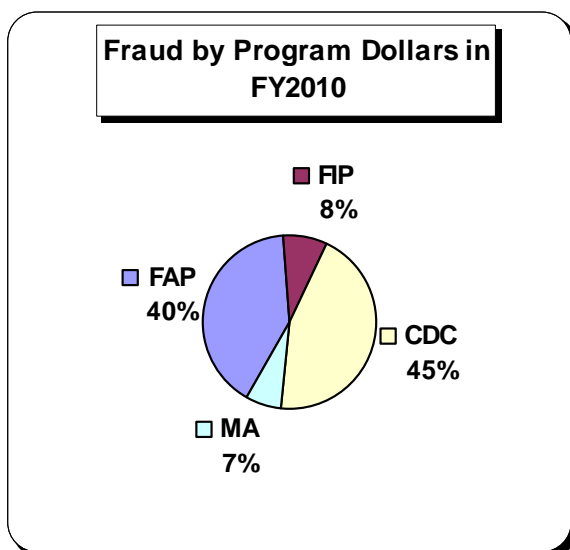
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FRAUD INVESTIGATIONS

OIG agents identified \$18.63 million in fraud during Fiscal Year (FY) 2010 with the majority involving multiple DHS program areas. During the past three years, 3,438 criminal warrants were authorized by county prosecutors. Investigations by OIG agents have discovered over \$55 million in fraud during the three-year period.



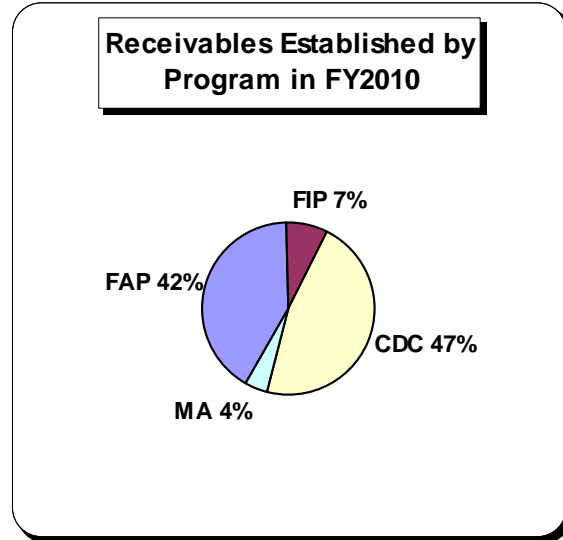
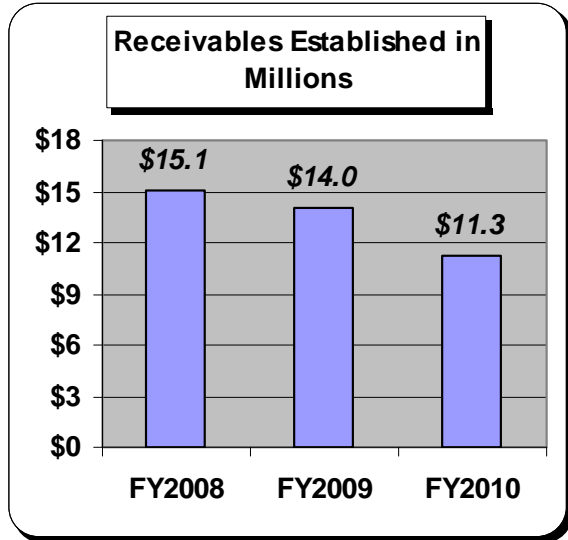
Fraud in the Child Development and Care (CDC) program accounted for 45 percent of the program fraud during FY 2010. Over \$6.9 million of CDC fraud was identified by OIG in FY 2010.



CDC = Child Development and Care Program
 FAP = Food Assistance Program
 FIP = Family Independence Program
 MA = Medicaid Assistance Program

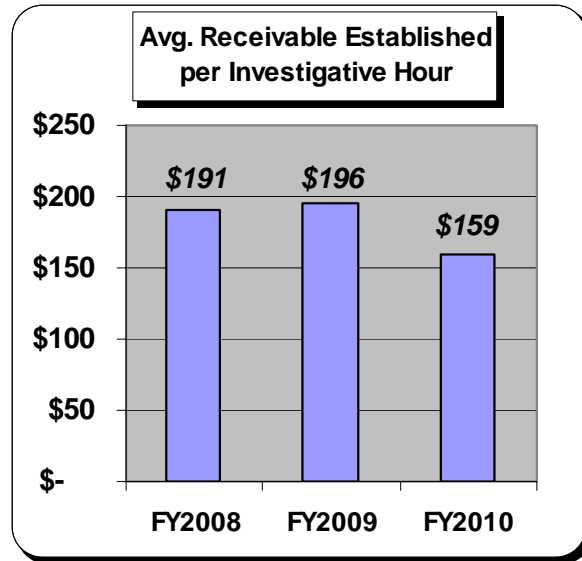
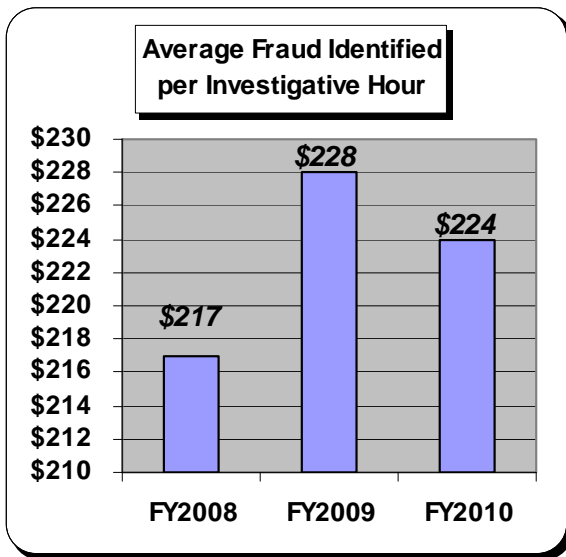
FRAUD RECEIVABLES ESTABLISHED

OIG investigations established over \$40 million in claims owed back to DHS due to fraud over the past three years. The CDC program accounted for 47 percent of all receivables established in FY 2010.



COST EFFECTIVENESS & PRODUCTIVITY

The average fraud found per investigative hour in FY 2010 was \$224. The average receivable established per investigative hour in FY 2010 was \$159.

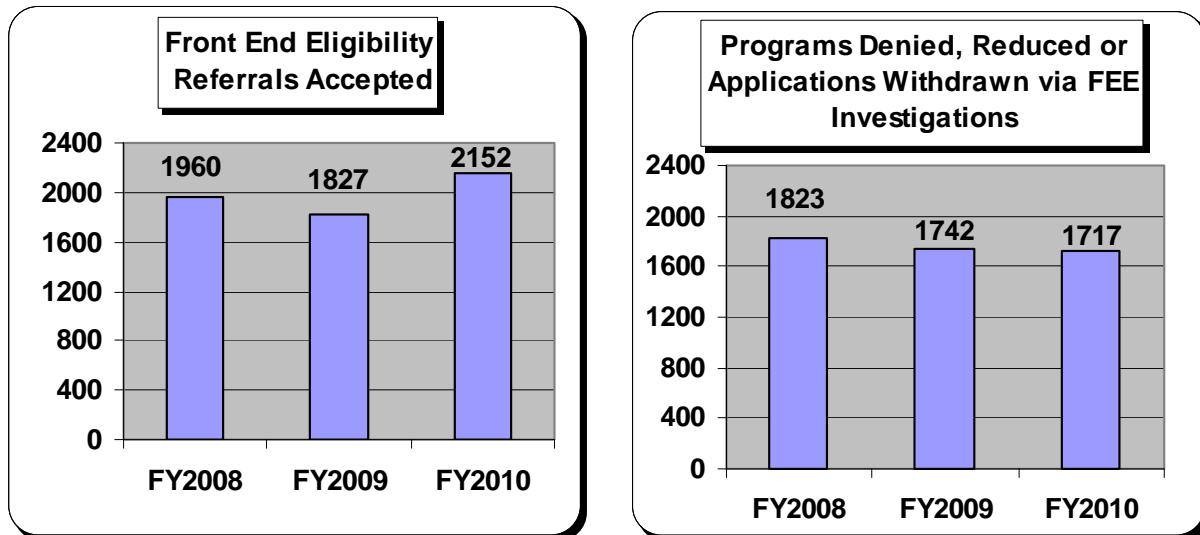


The average cost per hour for a regulation agent in FY 2010 was \$43*. The cost effectiveness ratio for fraud identified per investigative hour was 5.2 to 1 in FY 2010. The cost effectiveness ratio for receivables established per investigative hour was 3.7 to 1 in FY 2010.

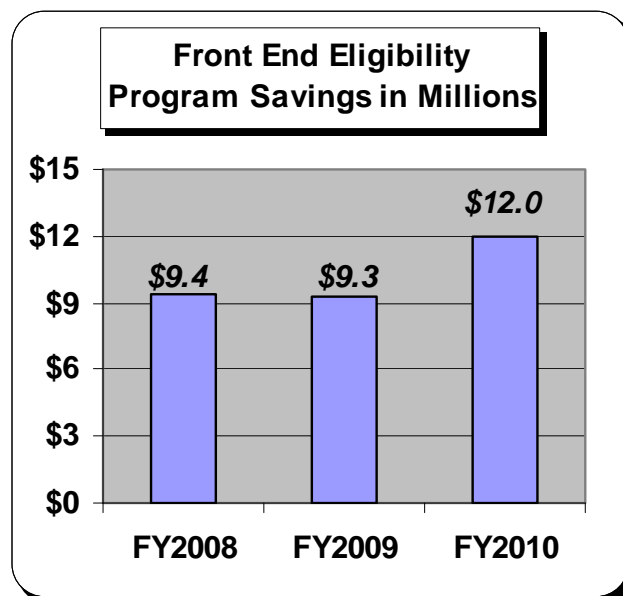
**Agent costs per hour include salary and wages, and benefits for Regulation Agent 11 positions at the top of the pay scale.*

FRONT END ELIGIBILITY (FEE) - FRAUD DETECTION & PREVENTION

DHS field staff can request a pre-eligibility investigation by an OIG agent when applications or re-certifications for public assistance contain suspicious or error prone information. In focusing on fraud prevention in Wayne, Oakland, Macomb, Livingston, and Berrien Counties, FEE agents have played a vital role in error reduction.

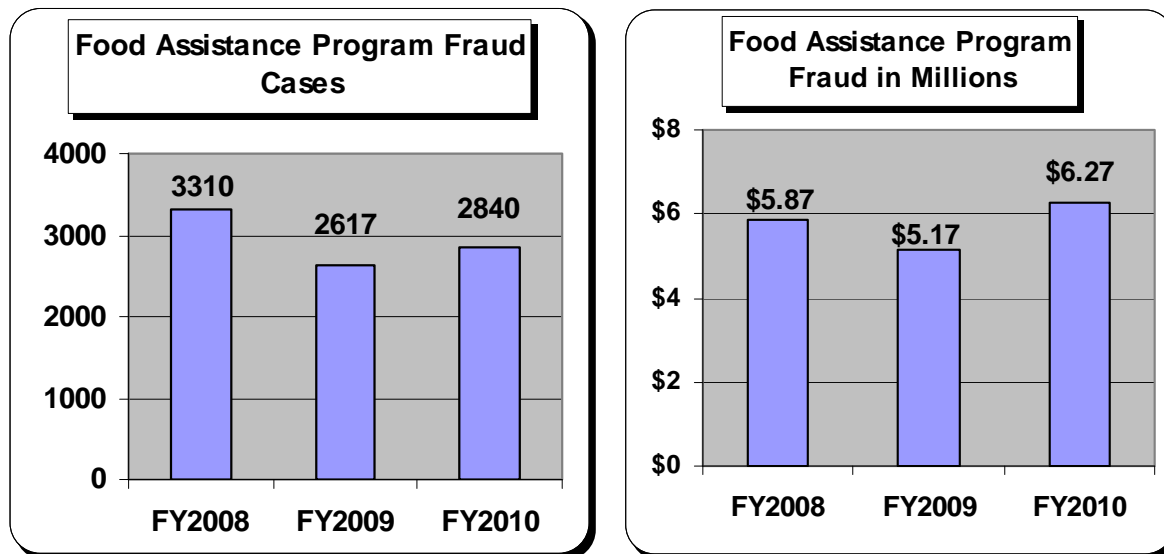


Working toward fraud prevention, OIG FEE agents conducted 2,009 investigations in FY 2010 and identified \$12 million in cost avoidance or cost savings as a result of 21,590 investigative hours, or \$554 per FEE investigation hour. Investigations by OIG agents have resulted in over \$30 million in program savings over the three-year period.



FOOD ASSISTANCE PROGRAM (FAP)

During the past three years, OIG has investigated 8,767 fraud cases in the FAP Program. The fraud found in FY 2010 was \$6.27 million for a three-year total of \$17.3 million.



Food Assistance Trafficking

OIG partners with the U.S. Department of Agriculture-OIG (USDA-OIG) along with the Michigan State Police (MSP) to investigate Food Assistance Program client and retailer trafficking of electronic benefits via the Michigan Bridge Card. Trafficking involves the buying or selling of FAP benefits for cash or consideration other than eligible food.

Trafficking Investigation

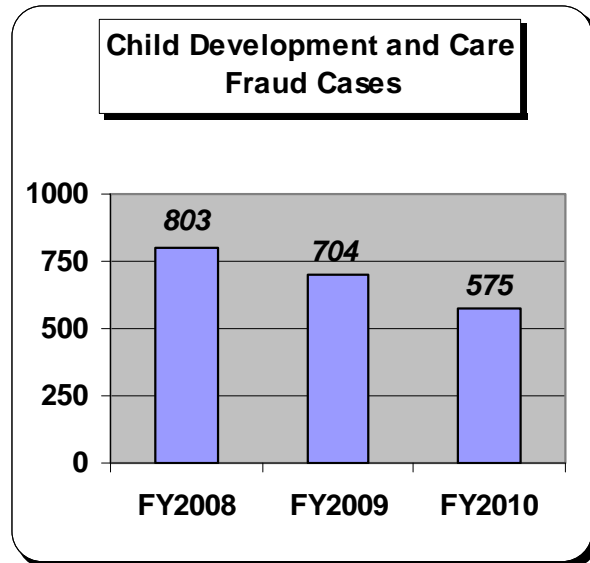
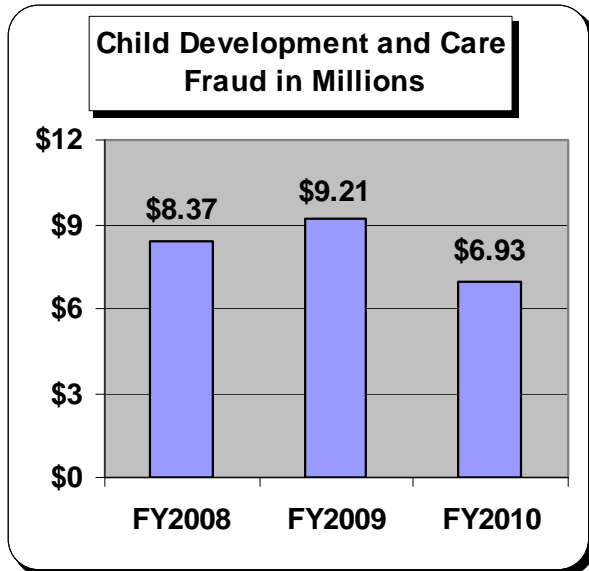
In June 2010, after months of investigation, authorities issued 38 felony warrants over the alleged misuse of Bridge Cards at a Grand Rapids gas station. Officers served a search warrant for “misoperation” of the food assistance program. Police were investigating allegations that the store owner would give people cash for their Bridge Card at a 50 percent discount. OIG agents partnered with the USDA-OIG and the MSP in the investigation.

Food Assistance Benefits Cashed Outside Michigan

To support FAP integrity and reduce the strain on Michigan's resources, OIG utilizes data matching to identify FAP recipients that are cashing FAP benefits out of the state on a regular basis. As a result, 500 households were identified for review. Of these, 370 (74 percent) of the households' cases were closed after OIG identified questionable Michigan residences based upon out of state FAP transactions over a period of months. The resulting closures saved DHS over \$500,000 in FAP benefits over a six-month period.

CHILD DEVELOPMENT & CARE PROGRAM (CDC)

The fraud identified by OIG Agents in FY 2010 was \$6.93 million for a three-year total of \$24.51 million. As the OIG continues to focus on high-risk provider and client cases, findings are used to make recommendations for improved CDC policy and payment accuracy.



OIG has developed an innovative approach utilizing technology to match clients with employment earnings records maintained by the Michigan Unemployment Insurance Agency to identify potential CDC overpayments. In partnership with the Department of Information, Management, and Budget, OIG implemented a first-in-the-nation Reverse Wage Match, linking day care benefits data with wages data and establishing parameters to detect fraud in the program. The OIG uses the data to correlate those clients who are receiving a high level of CDC due to “employment” but have low or no income reported.

The National Association of State Chief Information Officers honored Michigan’s DHS OIG with a recognition award for the innovative use of technology for fraud detection in this program.

SPECIAL INVESTIGATIONS UNIT (SIU)

SIU is responsible for conducting complex investigations involving DHS programs, providers, and personnel. In FY 2010, the OIG SIU completed 123 investigations resulting in \$2,159,815 of alleged welfare fraud. SIU conducted a review of the day care centers that billed a large percentage of their hours as sick/holiday (absent) hours. SIU agents took repayment agreements totaling \$467,854 from 12 of the top sick/holiday hour billers.

In FY 2010, OIG SIU investigated and sought warrants in 18 DHS employee criminal investigations. To date, warrants have been issued in 10 of these cases, five are still pending prosecutorial decision, and three were denied. Of the three denials, one employee resigned in lieu of termination, one employee was suspended, and one employee is pending dismissal.

In addition to the above, the SIU conducted numerous investigations involving Weatherization, Adoption Subsidy, Home Help and Food Assistance Programs.

EMPLOYEE INVESTIGATIONS

OIG completed an investigation involving an employee who authorized payments to her son as an Adult Home Help Provider (AHHP). For a four-year time period, this AAHP provider received \$66,280, which 96 percent (\$63,885) was authorized by the employee to her son. OIG discovered that several payments had been made with no case file documentation. Payments also were paid to the provider and no services were provided. The case is pending with the county prosecutor.

OIG received a complaint on a child day care center that may have been owned and operated by a worker employed by DHS. The investigation found that the DHS employee did co-own the day care with her sister, who with their mother ran the day care day-to-day operations. An interview with the day care's director revealed this particular day care used five different methods to track a child's time and attendance. Per OIG review of every daily attendance sheet from January 2006 through March 2008, it was discovered that the day care had been overbilling DHS for children's hours, absent hours, and children not in their care. Total over issuance was \$89,546. Both the DHS employee and her sister have been charged with nine counts of false pretenses, all felonies. The owners are currently awaiting trial.

OIG identified an additional DHS employee who opened and maintained a FAP case for her live-in boyfriend, who was not eligible for these benefits. Another DHS co-worker opened a FAP case for the employee's cousin, and failed to follow proper DHS policy and procedure when doing so. The employee used her cousin's EBT card for her own personal use after he had moved to Texas. This employee was terminated from State of Michigan employment in March 2010. The employee was charged with welfare fraud of over \$500 felony and pled no contest to the charge. On August 26, 2010, she was sentenced to 24 month's probation.

CHILD CARE CENTER FRAUD

A day care center was billing for children while they were attending school. In addition, the center was billing for CDC hours when a child was only in the center's care on a part-time basis. The investigative agent learned that the center was considered a full-time child care center and billed for each child as if they were in their care on a full-time basis, whether or not they were actually at the center on a full-time basis. The owner of the child care center acknowledged her overbilling of CDC hours and signed a recoupment agreement for \$150,000.

OIG received a complaint that a day care owner was possibly billing for children not in her care. OIG received the day care's daily attendance records of which were compared to DHS billing history, employment records of the parents, and parent interviews. Investigation found that the day care provider had billed the maximum number of hours authorized by DHS for each child for several years. The provider confessed to overbilling DHS for \$23,190, from January 2005 through February 2009. The county prosecuting attorney agreed to suspend the provider's sentence for two years on the condition monthly payments were made until the balance was paid off in full.

Another day care center required parents to provide their ID and PIN numbers in order to do the parent reporting/billing themselves. Review of attendance records indicates that the owner of the center bills the State of Michigan the maximum hours for all children in their care, regardless of whether or not the children were in this provider's care. The provider signed a Provider Repayment Agreement on August 13, 2010, in the amount of \$182,171.

A day care center owner was billing the State of Michigan for excessive absent child care hours. Review of attendance records indicates that the provider did not have documentation of absent hours to support the number of absent hours billed. The provider signed a Provider Repayment Agreement on August 13, 2010, in the amount of \$91,592.

OIG received a complaint alleging that a day care center was overbilling DHS. The allegations included billing for more hours than the care provided, billing for school aged children while they were in school, and billing for children that did not attend the day care center. Interviews of parents were conducted of which confirmed the allegations. The owner was interviewed and he admitted to overbilling DHS, made a written statement, and signed a repayment agreement to reimburse the State of Michigan for the over issued benefits of \$75,673. The case was accepted by the Michigan Department of Attorney General for recoupment.

WEATHERIZATION FRAUD

SIU received a complaint that a client requested assistance to provide a roof for her home. During the course of the investigation it was determined that the home was not inhabited. The client was interviewed and advised that she was not eligible for any weatherization funds as she did not occupy the home. Her assistance case was also closed due to her having provided false information regarding this residence.